

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05  
CEA-01 PA-02 PRS-01 /108 W  
-----051613 272033Z /66

R 271739Z SEP 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 1802  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING SEPT 26)

REF.: BONN 14531, 15045, 15209, 15775

1. CENTRAL BANK MONEY:  
IN AUGUST, CENTRAL BANK MONEY (CBM), SEASONALLY ADJUSTED,  
INCREASED BY DM 1.4 BILLION BRINGING THE TOTAL VOLUME UP  
TO DM 127.3 BILLION. IN JULY, CENTRAL BANK MONEY  
INCREASED BY DM 1.4 BILLION FOLLOWING A DM 1.5 BILLION  
INCREASE IN JUNE. IF IN THE LAST FOUR MONTHS OF 1977  
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CBM WOULD REMAIN AT THE AUGUST LEVEL THIS WOULD MEAN AN  
8.2 PERCENT ANNUAL GROWTH WHICH IS SOMEWHAT ABOVE THE  
BUNDESBANK'S 8 PERCENT GROWTH GOAL FOR 1977. ASSUMING  
FOR THE LAST FOUR MONTHS OF 1977 THE SAME RATE OF CBM  
GROWTH AS IN THE FIRST EIGHT MONTHS OF THE YEAR, CBM  
WOULD RISE 8.8 PERCENT IN 1977 (AVERAGE 1977 OVER  
AVERAGE 1976).

## 2. MONEY SUPPLY:

IN AUGUST THE INCREASE IN THE MONEY SUPPLY WAS SUBSTANTIALLY LOWER THAN IN JULY. HOWEVER, IN JULY MONETARY EXPANSION HAD BEEN EXTREMELY HIGH DUE TO THE RELEASE AT THE END OF JUNE OF DM 13 BILLION OF SAVINGS DEPOSITS SUBSIDIZED UNDER THE SAVINGS PREMIUM LAW AND UNDER THE WORKERS' ASSET FORMATION LAW (SEE BONN 14531). IN AUGUST M 1, M 2 AND M 3 DEVELOPED AS FOLLOWS (CHANGES IN DM BILLION):

## SEASONALLY ADJUSTED

1ST QUARTER 2ND QUARTER  
(MONTHLY AVERAGES) JULY AUGUST

M 1	2.6	1.4	3.7	2.1
M 2	1.4	1.4	6.2	1.5
M 3	3.6	2.6	13.2	3.5

## SEASONALLY NON-ADJUSTED

M 1	-2.4	3.6	3.4	-1.9
M 2	-5.0	3.2	4.9	0.5

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M 3	-3.1	3.1	12.8	1.3
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AT THE END OF AUGUST, 1977, (ALL FIGURES NON-ADJUSTED)

M 1 WAS 8.9 PERCENT; M 2, 7.3 PERCENT AND M 3, 7.5 PERCENT HIGHER THAN AT THE END OF AUGUST 1976.

IN AUGUST THE INDIVIDUAL COMPONENTS OF MONEY SUPPLY DEVELOPED AS FOLLOWS (NON-SEASONALLY ADJUSTED; CHANGES IN DM BILLION):

	AUGUST	JULY
	1977	1976
	1977	1977

## I. LENDING TO DOMESTIC

NON-BANKS	4.8	9.2	5.8
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CEA-01 PA-02 PRS-01 /108 W

-----051673 272035Z /66

R 271739Z SEP 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1803

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

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FROM BUNDESBANK	-0.8	-0.2	0.4
FROM COMMERCIAL BANKS	5.6	9.5	5.4
TO PUBLIC SECTOR	2.0	4.4	3.6
TO PRIVATE SECTOR	3.6	5.1	1.8

II. NET EXTERNAL POSITION OF

BUNDESBANK AND COMMERCIAL

BANKS	-0.8	0.8	-1.7
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III. LONG-TERM BANK DEPOSITS

AND OUTSTANDING BANK

BONDS (1)	3.6	4.0	-6.5
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IV. OFFICIAL ASSETS HELD AT

CENTRAL BANK	-0.3	2.7	-1.5
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V. OTHER	-0.6	-2.4	-0.7
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VI. M 3 (2) (EQUALS I PLUS

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II MINUS III MINUS IV

MINUS V)	1.3	5.7	12.8
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VII. M 2 (M 3 MINUS SAVINGS

DEPOSITS)	0.5	4.7	4.9
VIII. M 1 (M 2 MINUS TIME			
DEPOSITS)	-1.9	-0.7	3.4

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 (1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

### 3. IFO ECONOMIC RESEARCH INSTITUTE ADVOCATES GREATER STIMULATION:

THE IFO ECONOMIC RESEARCH INSTITUTE IN MUNICH HAS JOINED THE COUNCIL OF ECONOMIC EXPERTS (SEE BONN 15045) IN URGING GREATER STIMULATION. ACCORDING TO THE PRESS, IFO HOLDS THAT THE GOVERNMENT'S STIMULATION PROGRAM (SEE BONN 15209) IS DEFICIENT IN SOME RESPECTS AND, MOREOVER, AT THE CURRENTLY CONTEMPLATED VOLUME, IS NOT LIKELY TO RESULT IN AN APPRECIABLE REDUCTION IN UNEMPLOYMENT. IN PARTICULAR, IFO DOUBTS THAT THE CONTEMPLATED DM 5.8 BILLION INCOME TAX RELIEF WILL SUFFICIENTLY STIMULATE CONSUMER DEMAND, POINTING OUT THAT THE IMPACT OF THIS RELIEF ON CONSUMER PURCHASING POWER IS LIKELY TO BE PARTIALLY OFFSET, AMONG OTHER THINGS BY THE 1978 TVA INCREASE. AS REGARDS THE ENVISAGED NATURE OF PERSONAL INCOME TAX CUTS, IFO ADVISED AGAINST THE CONTEMPLATED UPPING OF THE BASIC EXEMPTION (PARA 2 A OF BONN 15209), WHICH WOULD PREJUDICE A NECESSARY INCOME TAX RESTRUCTURE, AND ADVOCATED UNCLASSIFIED

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INSTEAD A TEMPORARY "CONJUNCTURAL EXEMPTION". THE PROPOSED EXPANDED DEPRECIATION ALLOWANCES (PARA 2 B OF BONN 15209) WOULD BE A STEP IN THE RIGHT DIRECTION, BUT EVEN MORE GENEROUS DEPRECIATION FACILITIES WOULD BE DESIRABLE, IFO HELD. ANY FORTHCOMING STIMULATION PROGRAM SHOULD BE SUPPLEMENTED BY REMOVAL OF ADMINISTRATIVE AND OTHER BARRIERS TO REALIZATION OF INVESTMENT PROJECTS (SUCH AS NUCLEAR POWER PLANTS), AND THE STATES AND MUNICIPALITIES SHOULD FOLLOW THE FEDERAL GOVERNMENT IN UPPING SPENDING PLANS, IFO EMPHASIZED. FINALLY, THE INSTITUTE, AS HAD THE COUNCIL OF ECONOMIC EXPERTS, POINTED TO THE NEED FOR WAGE RESTRAINT TO STRENGTHEN INVESTMENT PROPENSITIES.

### 4. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD SEPTEMBER 8-15 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.7 BILLION TO DM 85.6 BILLION. ACCORDING TO THE BUNDESBANK, THE DECLINE

BASICALLY REFLECTED "RATE SMOOTHING" DOLLAR SALES BY THE BUNDESBANK. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 703 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 41 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 40 MILLION.

5. BANK LIQUIDITY:

DURING THE SAME PERIOD THE BANKS REDUCED THEIR RESERVE HOLDINGS AT THE BUNDESBANK SUBSTANTIALLY BY DM 7.5 BILLION. THEY DID SO SINCE THEY HAD TO FINANCE PAYMENTS FOR THE MAJOR MID-SEPTEMBER TAX DATE AND, PRIOR TO SEPTEMBER 15, TO REPAY OUTSTANDING BORROWINGS MADE UNDER THE SPECIAL REDISCOUNT FACILITY. (THE BUNDESBANK CLOSED THIS FACILITY ON SEPTEMBER 5 - SEE BONN 14531 - BUT REOPENED IT EFFECTIVE SEPTEMBER 23 - SEE BONN 15775.) OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 1.1 BILLION INCLUDING A DM 0.5 BILLION DECLINE IN CURRENCY IN CIRCULATION.  
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R 271739Z SEP 77

FM AMEMBASSY BONN  
TO SECSTATE WASHDC 1804  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
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LIQUIDITY WAS REDUCED BY PAYMENTS FOR THE MAJOR MID-SEPTEMBER TAX DATE. THIS ENABLED THE FEDERAL GOVERNMENT TO REDUCE ITS CREDIT FROM THE BUNDESBANK BY DM 1.3 BILLION TO DM 1.0 BILLION AND TO INCREASE ITS BUNDESBANK ASSETS BY DM 0.6 BILLION TO DM 0.8 BILLION. ALSO DUE TO TAX PAYMENTS THE BUNDESBANK ASSETS OF STATE GOVERNMENTS INCREASED BY DM 2.3 BILLION TO DM 5.6 BILLION. ANOTHER FACTOR REDUCING LIQUIDITY WAS THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REPAY BORROWINGS UNDER THE REDISCOUNT FACILITY - REDUCING THIS BALANCE FROM DM 5.9 BILLION TO ZERO. AT THE SAME UNCLASSIFIED

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TIME, THEY INCREASED NORMAL REDISCOUNT BORROWINGS BY DM 1.6 BILLION AND LOMBARD BORROWINGS BY DM 0.5 BILLION. ON SEPTEMBER 15, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 17.8 BILLION AS COMPARED WITH DM 21.6 BILLION ON SEPTEMBER 7.

#### 6. MONEY MARKET:

FRANKFURT INTERBANK MONEY MARKET RATES DEVELOPED AS FOLLOWS DURING THE PERIOD SEPTEMBER 20-26:

	CALL MONEY	ONE-MONTH	THREE-MONTH
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SEPT. 20	4.0-4.1	4.05	4.05
21	4.0-4.1	4.05	4.05
22	4.0-4.1	4.05	4.05
23	3.95-4.05	4.05	4.05
26	3.95-4.05	4.05	4.05

#### 7. FOREIGN EXCHANGE MARKET:

THE DOLLAR/DEUTSCHEMARK EXCHANGE RATE REMAINED STABLE DURING THE REPORTING PERIOD. FRANKFURT SPOT AND FORWARD DOLLAR RATES WERE AS FOLLOWS:

FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)  
OPENING FIXING CLOSING ONE-MONTH THREE-MONTH  
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SEPT 20 2.3220 2.3228 2.3215 -2.7 -2.7  
21 2.3205 2.3207 2.3215 -2.3 -2.8  
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22 2.32075 2.3210 2.3220 -2.7 -2.9  
23 2.32825 2.3283 2.3290 -2.7 -2.9  
26 2.32675 2.3265 2.32525 -3.0 -3.0  
27 2.3305 2.3312 N.A. N.A. N.A.

8. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS TRADING WAS CALM WITH  
PRICES REMAINING STABLE. ACCORDING TO THE PRESS AVERAGE  
CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING  
MATURITY ARE AS FOLLOWS:

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CEA-01 PA-02 PRS-01 /108 W  
-----051822 272032Z /66

R 271739Z SEP 77  
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## REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
SEPT 23	4.35	5.00	5.55	5.95	6.25	6.35
SEPT 16	4.35	5.00	5.55	5.90	6.25	6.35

ON THE MARKET FOR FOREIGN BONDS THE CREDIT NATIONAL DE PARIS ISSUED A DM 150 MILLION LOAN ON SEPTEMBER 22 (COUPON 6 PERCENT, ISSUE PRICE 99 3/4, MAXIMUM MATURITY 10 YEARS). THE MEXICAN BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS S.A. WILL OFFER A DM 150 MILLION LOAN (COUPON 7 PERCENT, ISSUE PRICE 99 1/4, MATURITY UNCLASSIFIED

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7 YEARS, YIELD TO MATURITY 7.14 PERCENT). THE BANQUE EXTERIEUR D'ALGERIE (BEA) WILL OFFER A DM 100 MILLION LOAN. THE COUPON IS EXPECTED TO BE 7 1/2 PERCENT, THE MATURITY 6 YEARS WITH REPAYMENT BEGINNING IN 1981. THE BRAZILIAN OIL COMPANY PETROBRAS INTENDS TO ISSUE A DM 150 MILLION LOAN. THE COUPON WILL PROBABLY BE 7 PERCENT, THE MATURITY 7 YEARS. FINAL CONDITIONS ARE EXPECTED TO BE DETERMINED ON OCTOBER 3.

## 9. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

THE FEDERAL STATISTICAL OFFICE HAS PUBLISHED PRELIMINARY, NON-SEASONALLY ADJUSTED NATIONAL ACCOUNTS DATA FOR THE FIRST HALF OF THE YEAR, PLACING REAL GNP IN JANUARY-JUNE 1977 AT A LEVEL 3 PERCENT ABOVE THE FIRST HALF OF 1976. DURING THE FIRST AND SECOND HALVES OF 1976, REAL GAINS OVER COMPARABLE 1975 LEVELS CAME TO 6.1 PERCENT AND 5.3 PERCENT, RESPECTIVELY. THE BUNDESBANK'S QUARTERLY SEASONALLY ADJUSTED GNP DATA THROUGH JUNE 1977 ARE CONTAINED IN BONN 15798. EXPORT PRICES (NON-SEASONALLY ADJUSTED) IN AUGUST SURPASSED AUGUST 1976 LEVELS BY 0.6 PERCENT (JUNE AND JULY, UP 1.1 PERCENT AND 0.7 PERCENT, RESPECTIVELY); IMPORT PRICES IN AUGUST WERE 1.2 PERCENT LOWER THAN A YEAR AGO (JUNE, PLUS 1.6 PERCENT; JULY, MINUS 1.1 PERCENT). LIVING COSTS IN NORTH RHEIN-WESTPHALIA (NON-SEASONALLY ADJUSTED) IN SEPTEMBER WERE 4.1 PERCENT HIGHER THAN A YEAR AGO (AUGUST, UP 4.0 PERCENT). STOESSEL



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## Message Attributes

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**TAGS:** EFIN, GE  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/e8e71b3c-c288-dd11-92da-001cc4696bcc  
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